

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

APPLICATION FOR CHANGE IN BASE)
RATE PURSUANT TO 807 KAR 5:067)
FOR A PURCHASED WATER ADJUSTMENT)
INCREASE TO THE RATES OF THE) CASE NO. 8191-A
SOUTH ANDERSON WATER DISTRICT)
ORGANIZED PURSUANT TO KRS CHAPTER)
273 OF THE KENTUCKY REVISED STATUTES)

O R D E R

On December 15, 1983, South Anderson Water District ("South Anderson") filed an application with the Public Service Commission ("Commission") for authority to increase the rates charged to its customers in accordance with the provisions of its purchased water adjustment clause on file with the Commission. On February 17, 1984, the Commission issued its Order denying the rates requested by South Anderson. On March 7, 1984, South Anderson filed an application for rehearing, requesting that the Commission modify or vacate its Order dated February 17, 1984, or in the alternative, hold its final decision in this proceeding in abeyance until its other supplier, Stringtown Water District, ("Stringtown") applies and passes on its increase in order that both increases might be considered simultaneously on a different test period.

In support of its application for rehearing, South Anderson stated that the Commission inappropriately reduced its depreciation expense and that, based on experience since the end

of the test period, the increased cost of water is now causing a loss of income.

The Commission will address each issue as follows:

Depreciation Expense

The Commission, in its Order of February 17, 1984, reduced South Anderson's depreciation expense by \$4,708. This adjustment was made to reflect its policy to exclude contributed property from the calculation of depreciation expense. South Anderson stated, and the Commission after re-examining the evidence of record concurs, that the above adjustment had already been reflected in South Anderson's calculation for depreciation. Therefore, the Commission has increased South Anderson's operating expenses by \$4,708. This has the effect of reducing South Anderson's debt service coverage ("DSC") from 1.7X to 1.4X.¹

Purchased Water Expense

As of the date of the Commission's Order in this proceeding, the anticipated increase from Stringtown had not materialized, nor has Stringtown requested to pass this increase on to South Anderson by the date of this Order. Such anticipated increase is neither known nor measurable and, thus, fails to meet the criteria for consideration at this time. Should Stringtown subsequently pass a rate increase on to South Anderson, South

¹ \$24,055 Operating Income - \$4,708 Additional Depreciation Expense + \$2,433 Interest Income = \$21,780 ÷ \$15,550 DSC = 1.4X.

Anderson may then apply to this Commission for a flow-through of the increase. At that time, the Commission will re-determine South Anderson's ability to absorb that increase based on the test period applicable to that filing.

Operations of One Month

South Anderson stated in its application for rehearing that its expenses for January 1984 were \$7,431.52 and its revenues for water sales were \$5,867.90. The Commission is of the opinion that one month taken in isolation is not a valid basis for projecting the operating results of a water utility. An entire operating cycle should be reviewed in order to make a fair determination of the results of the utility's operations. Moreover, if the test period or any subsequent period should include abnormalities they could only be discerned and given serious consideration with due process in a general rate case. Therefore, South Anderson's application for rehearing of this issue should be denied.

Delay of Final Decision

South Anderson was aware at the time the application was filed of a possible increase from Stringtown and could have withheld its filing and requested a pass-through of both increases in a single filing. Further, the income and expense data used to justify the use of a different test period is for January 1984. The Commission's Order was not issued until February 17, 1984. South Anderson could have withdrawn its application when it realized there was a change in its expenses and revenue flow prior to issuance of the Commission's Order. The Commission is of the opinion that to now grant South Anderson's request to set aside

and delay its final decision in order to use a different test period would defeat the purpose for which the purchased water adjustment clause was intended.

REVENUE REQUIREMENTS

South Anderson's adjusted DSC is 1.4X. The Commission is of the opinion that this coverage is sufficient to enable South Anderson to pay its operating expenses and to meet the requirements of its lenders. Therefore, the Commission finds that no additional revenue is required at this time.

FINDINGS AND ORDERS

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. South Anderson's depreciation expense should be increased by \$4,708.

2. All issues of rehearing with the exception as set out in Finding No. 1 should be denied.

3. All provisions of the Commission's Order of February 17, 1984, not specifically amended herein shall remain in full force and effect.

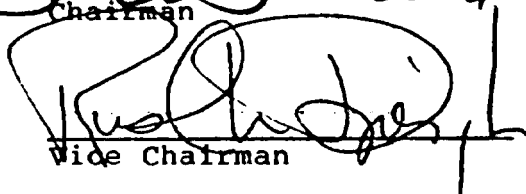
IT IS THEREFORE ORDERED that South Anderson's application for rehearing, with the exception set out in Finding No. 1, be and is hereby denied.

IT IS FURTHER ORDERED that all provisions of the Commission's Order of February 17, 1984, not specifically amended herein shall remain in full force and effect.

Done at Frankfort, Kentucky, this 27th day of March, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary